

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS LION TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T24-1-9)

The United States Postal Service hereby provides responses of witness Lion to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T24-1-9, filed on July 18, 1997.

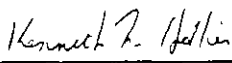
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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August 1, 1997

OCA/USPS-T24-1. Please refer to your testimony at page 2, lines 17-19.

- a. Please confirm that the "POB Survey" referred to in your testimony is the same Post Office Box Study described on pages 3 - 14 of your testimony in Docket No. MC96.3. If you do not confirm, please explain.
- b. Please confirm that the Post Office Box Study from Docket No. MC96-3 has not been revised or updated with supplemental information on the number of post office boxes installed or in use. If you do not confirm, please explain.
- c. Please confirm that the Postal Service has not conducted any other study of post office boxes during the past five years concerning the number of post office boxes installed or in use. If you do not confirm, please explain, and provide copies of (and file as library references) any and all such studies.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed, in that the original Post Office Box Survey data have not been revised or updated. Other postal files, such as the Delivery Statistics File (DSF), are routinely updated and have been merged with the original data.
- (c) Not confirmed. As stated in part (a), the POB Survey done for Docket No. MC96-3 and used in Docket No. R97-1 has not been updated. However, we have done additional analyses based on that data, which are presented in my testimony.

OCA/USPS-T24-2. Please refer to your testimony at pages 1-3.

- a. Please confirm that post office box fee groups are based on groupings of post office by the type of carrier delivery service, or lack thereof, provided. If you do not confirm, please explain.
- b. Please confirm that the grouping of post offices by the type of carrier delivery service, or lack thereof, provided was not based on the costs associated with each office in the group. If you do not confirm, please explain.
- c. Please confirm that post office box fee groups based on the grouping of post office by the type of carrier delivery service, or lack thereof, provided are not designed to be a homogeneous cost grouping. If you do not confirm, please explain.

RESPONSE:

- (a) Not confirmed. The fee groups depend upon specified ZIP Codes, customer characteristics, and type of carrier delivery service. They are defined on page 2, lines 8-13, of my testimony, USPS-T-24.
- (b) Unable to confirm. See my response to part (a). The current definitions reflect a correlation between fee groups and costs (see Table 13, USPS-T-24). However, office-by-office cost distinctions never have been and are not now proposed as an appropriate -- let alone exclusive -- basis for grouping box fees.
- (c) Unable to confirm. As explained above, box fee groups based in part upon the type of delivery service are correlated with costs, but whether this means that those groups are "homogeneous", I am unable to say. It may be possible to improve the strength of the correlation, but the Postal Service has yet to determine how best to do so.

OCA/USPS-T24-3. Please refer to Tables 1 and 2 of your testimony.

- a. Please provide the total number of post office boxes installed, and annual change in the number of boxes installed, for each of the past five years.
 - i. What percent of the change in the number of boxes installed occurred *at existing facilities that were renovated or remodeled?*
 - ii. What percent of the change in the number of boxes installed occurred at facilities that were newly opened for business?
- b. Please provide the total number of post office boxes in use, and the annual change in the number of boxes in use, for each of the past five years.
 - i. What percent of the change in the number of boxes in use occurred at existing facilities that were renovated or remodeled?
 - ii. What percent of the change in the number of boxes in use occurred at facilities that were opened for business?

RESPONSE:

The requested information is not available. The data in Tables 1 and 2 are based on the POB Survey, which was a one-time undertaking. The Delivery Statistics File (DSF) provides data on boxes installed, but not boxes in use, and since its function is to aid current mail operations, it does not provide historical data.

OCA/USPS-T24-4. Please refer to your testimony at page 5, Table 1.

- a. Please confirm that Delivery Group "City - A" consists entirely of CAG A post offices. If you do not confirm, please explain.
- b. Please provide the number of post office boxes installed, for each box size, by CAG.
- c. Please provide the number of post office boxes in use, for each box size by CAG.
- d. Please provide the number of post office boxes installed, for each box size, by CAG in each delivery group.
- e. Please provide the number of boxes in use, for each box size, by CAG in each delivery group.

RESPONSE:

- (a) Confirmed, in that all the ZIP Codes in Delivery Group City-A are included in a single CAG A office, according to the DSF.
- (b) - (e) USPS LR-H-216 is being filed with the data necessary to perform the necessary calculations.

OCA/USPS-T24-5. Please refer to your testimony at page 20, lines 19-21, and Table 12.

- a. Please confirm that the rent paid for leased space is the average rental cost per square foot. If you do not confirm, please explain.
- b. Please confirm that the figures shown in the "Average Rent" column of Table 12 are computed as the ratio of total cost to total area for all post offices in each fee group. If you do not confirm, please explain, and provide all data (and file as a library reference any data files) supporting the computation of the figures shown in the "Average Rent" column.

RESPONSE:

- (a) Not confirmed. The statement cited refers, in general terms, to those costs that are allocated to Space Provision in the Cost Segments and Components Report. See definition in USPS-T-24, page 19, lines 17-20. Average rent per square foot was derived from the Facility Management System, as described in LR-H-188.
- (b) Not confirmed. This interrogatory raises an issue discussed in Docket No. MC96-3: whether to use the ratio of total cost to total area for all post offices in each fee group, or to average the rents for individual post offices counting each as a separate data point. As discussed in the standard reference Sampling Techniques by Cochran (Chapter 6, 3rd Edition, 1977), there are situations in which a case can be made for either method. In this case, we considered both approaches and determined to average the rental costs for individual offices.

The reasoning is as follows: The purpose is to measure, as accurately as possible and from postal data, the cost of renting retail office space for a certain group of post offices. This is why we used only lease rentals and not the depreciated costs of ownership in our calculations. The rental cost at each office, regardless of its size, is a valid data point in this exercise. Each should be weighted equally.

Calculating the average rental cost as the total cost divided by total floor space allows a few large facilities to dominate the result and, in effect, dissipates valid information. It is often the case that the large facilities are built in industrial areas and have few, if any, boxes. On the other hand, many smaller facilities, such as nondelivery offices, have nothing but boxes. Accordingly, we determined that costs at large facilities should not dominate.

The dominance of larger offices is shown by the stylized example with two post offices presented by OCA in its Initial Brief in Docket No. MC96-3, page 105. Comparing Scenario 1 to Scenario 2 in that example, the rental costs at the larger office increase by 4 percent while, at the smaller facility, they decrease by 67 percent. Yet the average rental cost remains the same when calculated as the ratio of total cost to total area. This is a completing misleading result if the post office boxes are located at the smaller facility, which is quite possible absent other information.

Taking that example (Scenario 1 or Scenario 2) one step further: suppose the larger office is expanded in size to make room for more mail processing equipment. In that case, the average rent calculated as the ratio of total cost to total area would increase as well, even though the decision had nothing to do with post office boxes and the rental rates at both facilities remained the same. The average rent using the method we chose, however, would remain the same.

The calculations supporting the average rents by fee group are contained in USPS LR-H-188, item 3. The data required to reproduce these results are contained in USPS LR-H-216.

OCA/USPS-T24-6. Please refer to your testimony at page 20, lines 22-24, and page 21, lines 1-2.

- a. Please confirm that the average rental cost per square foot for each fee group is constant. If you do not confirm, please explain.
- b. Is it your testimony that the Postal Service has the data to be able to allocate space provision costs on a post office-by-post office basis?
- c. Please provide a citation of the portion of LR-H-188 that implements the procedure described at page 20, lines 22-24, and page 21, lines 1-2.

RESPONSE:

- (a) Confirmed.
- (b) No. The data are not available. The example is cited only to illustrate the allocation methodology.
- (c) The procedure cited is implemented by applying Equation (1) on page 22. The results are shown in Table 12.

OCA/USPS-T24-7. Please refer to Table 12 of your testimony.

- a. Please provide the average rental cost in dollars per square foot by CAG.
- b. Please show the computation of average rental cost per square foot by CAG requested in part a. above. Please provide all data (and file as a library reference any data files) supporting the computation of the average rental cost per square foot requested in part a. above.

RESPONSE:

- (a)-(b) The data to perform this calculation are available in USPS LR-H-216 for any participant interested in performing such calculations.

OCA/USPS-T24-8. Please refer to your testimony at page 22, lines 7-12.

- a. Please confirm that the volume variable cost of space provision is \$223,226,000. If you do not confirm, please explain.
- b. Please confirm that the figure in the expression: $c = (\$179,233,000)/Q$ is the volume variable cost for space provision developed in Docket No. MC96-3. If you do not confirm, please explain.
- c. Please confirm that the volume variable cost for space provision in the expression referred to in part b. above should be \$223,226,000. If you do not confirm, please explain.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

An appropriate erratum will be filed.

OCA/USPS-T24-9. Please refer to LR-H-188, pages 16-20.

a. Did you consider calculating group rent per square foot as the ratio of total group rental cost to total group square footage for your complete date set (excluding the one percentile and 99 percentile outliers)? Why did you not use such a formula to calculate your rental cost per square foot?

b. Please consider the following modifications to your SAS program:

Modify line 12 to read:

```
KEEP ZIP FINANCE RSCTSQFT RENTAMT INTSQFT
```

Insert after line 136:

```
PROC MEANS;  
CLASS GROUP  
VAR RENTAMT INTSQFT;  
OUTPUT OUT=GRPSUM SUM=  
DATA GRPAVG; SET GRPSUM;  
AVRCSF=RENTAMT/INTSQFT;  
PROC PRINT DATA=GRPAVG;
```

- i. Please confirm that the above modifications would produce the ratios of total group rental cost to total group square footage as referred to in part a. of this interrogatory. If you do not confirm, please provide any corrections necessary.
 - ii. Please provide the results of modifying your SAS program so that the ratios referred to in part a. are produced.
 - iii. Please confirm that this modification excludes the one percentile and 99 percentile facility rental cost per square foot outliers as in the unmodified program.
- c. Please confirm that the data sets utilized by your SAS program have not been and will not be filed as a library reference. If you do not confirm, please identify the library reference containing the data sets.

RESPONSE:

- (a) See response to OCA/USPS-T24-5(b).
- (b) (i) Confirmed.
 - (ii) The data to perform this calculation are contained in USPS LR-H-216.
 - (iii) Confirmed.
- (c) Not confirmed. While I do not believe that the DSF and FMS are included in any library reference in this proceeding, LR-H-216 contains an extract from each merged with data from the POB Survey. (Each record represents a different 5-digit ZIP Code, although the ZIP Code itself is not included.)

DECLARATION

I, Paul M. Lion, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Paul M. Lion

Dated: 8/1/97

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Kenneth T. Hollis
Kenneth T. Hollis

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August 1, 1997